

A woman with blonde hair, seen from behind, is walking on a sandy beach towards the ocean. She is wearing a long, flowing black dress. The beach is wide and sandy, with some sparse green grass in the foreground. In the background, there are gentle waves of the ocean. A large piece of driftwood lies horizontally across the middle ground on the sand.

MÁDARA

organic skincare

**AS MADARA COSMETICS
2022 STANDALONE AND CONSOLIDATED
ANNUAL REPORT PREPARED IN ACCORDANCE
WITH LATVIAN STATUTORY REQUIREMENTS,
AND INDEPENDENT AUDITORS' REPORT***

**This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.*



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INFORMATION ABOUT THE GROUP

Name of the Group	MADARA Cosmetics
Legal Status of the Parent Company	Joint stock Company
Registration number of the Parent Company	No 40003844254
Registration place and date	Riga, 28 July 2006
Parent Company's legal address	Zeltinu Street 131, Marupe, Marupe district, LV-2167, Latvia
Shareholders (above 5 %)	Uldis Iltners – owns 23.92% of shares Lote Tisenkopfa - Iltnere – owns 23.76% of shares Oy Transmeri Group Ab – owns 22.93% of shares Liene Drāzniece – owns 6.79% of shares Zane Tamane – owns 6.35% of shares
Type of operations and NACE code	Manufacture of perfumes and cosmetic preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and related articles in specialized stores 47.75 Retail sale via mail order houses or via Internet 47.91
Board of the Parent Company	Lote Tisenkopfa - Iltnere – Chairman of the Board Uldis Iltners – Member of the Board Tatjana Nagle – Member of the Board
Council of the Parent Company	Anna Ramata Stunda – Chairman of the Council Liene Drāzniece – Deputy Chairman of the Council Anna Andersone – Member of the Council Edgars Pētersons – Member of the Council Sari Hannele Rosin – Member of the Council
Reporting period	From 1.1.2022 to 31.12.2022
Previous reporting period	From 1.1.2021 to 31.12.2021
Subsidiaries of the Group	Madara Retail SIA, reg. No 40103212103 – 100% Cosmetics Nord SIA, reg. No 40103277805 – 100% Nord Beauty SIA, reg. No 40203354922 – 100% owns Cosmetics Nord SIA Madara Cosmetics GmbH, reg. No HRB 177689 – 100% MADARA Cosmetics Inc. (since 2023), reg No 37-2087771 – 100%
Independent auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 Republikas laukums 2A, Riga, LV-1010, Latvia
Certified Auditor	Inguna Staša LR Certified Auditor Certificate No 145

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The Board of MADARA Cosmetics AS (hereinafter – “Parent Company” or “Company”) is responsible for the preparation of the seperate and consolidated financial statements of the Parent Company and its subsidiaries (hereinafter – the Group).

The seperate and consolidated financial statements are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Parent Company and the Group as of 31 December 2022 and the results of its operations and cash flows for the year 2022.

Separate and the consolidated financial statements have been prepared in accordance with the law “On the Annual Reports and Consolidated Annual Reports”. Appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made by the Board in the preparation of these financial statements.

The Board of the Parent Company is also responsible for maintaining proper accounting records, for taking reasonable steps to safeguard the assets of the Parent Company and the Group, and to prevent and detect fraud and other irregularities.

Lote Tisenkopfa - Iltnere
Chairman of the Board

Tatjana Nagle
Member of the Board

Uldis Iltners
Member of the Board

MANAGEMENT REPORT

During the reporting period, MADARA Cosmetics Group consisted of the Parent Company MADARA Cosmetics AS and its subsidiaries MADARA Retail SIA, Cosmetics NORD SIA, Madara Cosmetics GmbH (Germany), and NORD Beauty SIA (previously Selfnamed SIA), which is a subsidiary of Cosmetics NORD SIA.

MADARA Cosmetics AS is the largest cosmetics producer in Latvia and one of the most notable natural cosmetics producers in the Baltics and Nordic regions. The Group's products are exported to more than 30 countries, mainly the EU. The key business of the Group is the production of natural, Ecocert/Cosmos certified cosmetics products and sales of MÁDARA and MOSSA brand products, as well as the provision of contract manufacturing services.

The Group's Parent Company operates in a leased office and production plant on Zeltinu Street 131 in Marupe, one of the region's most advanced and capacity-wise largest cosmetics production plants. In addition, the Parent Company uses leased office premises on Baložu Street 20A, Riga. For the core business operations, the subsidiary Cosmetics NORD SIA uses leased office premises on Lielirbes Street 1, Riga, and warehouse premises on Kauguru Street 6, Riga.

Although global geopolitical and economic upsets in 2022 have slowed down our previously rapid growth pace, the Group has managed to keep the reporting period turnover close to the level achieved in the previous reporting year and generate a profit. As a result, the Group's turnover for 2022 amounted to EUR 18.7 million, a 3.5% decrease compared to the prior year, while the profit after corporate income tax for 2022 was EUR 1.12 million. In 2022 accompanied by the implementation of strategy, which is oriented toward the Group's active proceedings and long-term expansion, the Group's Management Board has fulfilled all the prerequisites to return to stable growth.

In 2022, 16 new MÁDARA skincare and makeup products were introduced to the market, gaining consumer trust and international recognition relatively quickly. For instance, our new peeling serum with hyaluronic acid was named Peeling Product of the Year 2022 by Finnish *Eeva* magazine. Among the whole range of 2022 innovations, we particularly commemorate the KIND line products

made for kids, children, and adults with sensitive skin, as well as Grow & Fix tinted brow gel in 3 shades, which was listed among the best-selling makeup products in the first month after the launch on the market. The turnover of the new products amounted to EUR 1.3 million in 2022.

In 2022, the Group's long-term investments exceeded EUR 1.3 million, of which more than EUR 700 thousand was invested in intangible assets for the e-commerce platform and more than EUR 240 thousand – technological equipment and machinery.

The production capacity of the Group's Parent Company is still sufficient to maintain growth at the current pace.

In the coming years, the Group's expansion focus will be devoted to the more vigorous development of such markets where the Group has taken over the distribution function, new B2C client acquisition and partnerships with new B2B customers, and trade development in third-party online stores. Similarly, as in previous years, developing our e-commerce channel will remain one of the top priorities stimulating further growth. Likewise, by observing promising performance indicators in 2022, we expect more rapid development of SELFNAME.COM, which would allow us to surpass the break-even point and start generating stable income to ensure profit in the upcoming reporting period.

In 2022, MADARA Cosmetics AS increased the number of workplaces by 18, recruiting new competent specialists and strengthening our team to achieve the goals. The financial risk management policy adopted by the Group is disclosed under Note 30 to the financial statements.

The Group started the first quarter of 2023 aspiringly, reaching sales targets and achieving net turnover growth compared to the first quarter of 2022, creating a positive outlook on the previously announced management guidance for the net turnover target of EUR 22 million in 2023.

MADARA Retail SIA (hereinafter – MADARA Retail SIA or the subsidiary) ensures the operation and retail function of MÁDARA brand stores in Riga, in the shopping centers "Galerija Centrs", "Spice", "AKROPOLE Alfa" and

MANAGEMENT REPORT (continued)

"AKROPOLE Rīga". In 2022, net turnover of the subsidiary amounted to EUR 861.7 thousand, which is 86% more than year prior. The profit of the subsidiary in 2022 amounted to EUR 5.7 thousand, while in 2021, the profit was substantially larger, amounting to EUR 133.4 thousand. The significant drop in profit can be explained by the costs driven up by the global slowdown and availability of the state support programme for companies affected by the COVID-19 crisis.

The core business of Cosmetics NORD SIA (hereinafter – Cosmetics NORD SIA or the subsidiary) is providing contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. In 2022, the subsidiary reached a turnover of EUR 1.20 million, a 6% increase compared to the previous year. However, 2022 was closed with a EUR 282 thousand in loss, which is attributable to the investment costs to maintain the platform's SELFNAME.COM implementation, development and operation.

In 2022, active work was devoted to building SELFNAME.COM recognition for marketing activities. We expect the subsidiary's expansion, which is supported by the growing number of registered users in the SELFNAME.COM platform as well as the increased number of orders observed in the second half of 2022.

MADARA Cosmetics GmbH provides cosmetics sales and marketing services in Germany and organizes the distribution of products manufactured by the Parent Company in the market of Germany.

Attributable events after the reporting date can be noted as follows: the establishment of the subsidiary MADARA Cosmetics Inc. in the USA in 2023. Type of operations – the distribution and sales of products. Furthermore, by the issuance of employee share options, a decision was made on March 6, 2023 to increase the share capital of the Company by EUR 100.00 (one hundred euro) by issuing new 1000 (one thousand) bearer shares with a nominal value of EUR 0.10 (ten euro cents) per share, which has been registered in the Commercial Register as of March 20, 2023.

No other material events have occurred since the reporting-year end, which should be reflected in these financial statements and would be relevant for reassessing the Group's assets and liabilities, its financial position, and the financial results of the reporting year.

Parent Company's Management Board proposes to pay in dividends EUR 1 321 219.85 or EUR 0.35 per share, where EUR 1 229 549 are from the Parent Company's 2022 profit and the remaining EUR 91 669.85 from previous years' retained earnings.



Lote Tisenkopfa - Iltnere
Chairman of the Board



Tatjana Nagle
Member of the Board



Uldis Iltners
Member of the Board

INCOME STATEMENT

	Note	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
Revenue	2	18 696 482	19 368 885	17 895 610	18 914 072
Cost of goods sold	3	(6 587 382)	(6 310 185)	(6 497 344)	(6 303 950)
Gross profit		12 109 100	13 058 700	11 398 266	12 610 122
Selling expenses	4	(8 543 425)	(7 717 049)	(7 835 010)	(7 464 026)
Administration expenses	5	(1 964 384)	(1 520 902)	(1 870 427)	(1 316 949)
Other operating income	6	200 370	381 738	201 148	301 598
Other operating expenses	7	(217 341)	(176 057)	(201 810)	(299 201)
Interest and similar income	8	577	1 014	577	1 014
Interest and similar expenses	9	(30 459)	(13 269)	(29 662)	(11 020)
Profit before corporate income tax		1 554 438	4 014 175	1 663 082	3 821 538
Corporate income tax for the reporting year	10	(433 612)	(345 484)	(433 533)	(345 484)
Profit after corporate income tax		1 120 826	3 668 691	1 229 549	3 476 054
Profit for the year		1 120 826	3 668 691	1 229 549	3 476 054

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

BALANCE SHEET

Assets	Note	Group 31.12.2022. EUR	Group 31.12.2021. EUR	Company 31.12.2022. EUR	Company 31.12.2021. EUR
Non-current assets					
Intangible assets					
Development costs		-	32 157	-	32 157
Concessions, patents, licenses, trademarks and similar rights		1 188 664	994 507	981 663	993 719
Other intangible assets		27 646	-	27 646	-
Prepayments for intangible assets		16 369	86 827	16 369	8 599
Total intangible assets	11	1 232 679	1 113 491	1 025 678	1 034 475
Property, plant and equipment					
Land		468 722	468 722	468 722	468 722
Leasehold improvements		312 688	306 991	298 109	281 479
Technological equipment and machinery		1 450 499	1 479 495	1 338 215	1 479 495
Other fixed assets and equipment		388 621	418 442	371 839	405 398
Assets under construction		273 670	213 637	273 670	77 460
Prepayments for property, plant and equipment		233 200	19 064	233 200	19 064
Total property, plant and equipment	12	3 127 400	2 906 351	2 983 755	2 731 618
Non-current financial investments					
Investments in subsidiaries	13	-	-	18 156	18 156
Other non-current receivables	14	82 736	82 124	40 000	40 000
Other securities and investments		826	826	826	826
Total non-current financial investments		83 562	82 950	58 982	58 982
Total non-current assets		4 443 641	4 102 792	4 068 415	3 825 075
Current assets					
Inventories					
Raw materials, materials and consumables	15	2 642 042	2 507 205	2 641 152	2 503 585
Finished goods and goods for sale	16	1 221 757	1 531 759	1 100 693	1 487 705
Prepayments for inventories		376 133	289 856	376 133	289 856
Total inventories		4 239 932	4 328 820	4 117 978	4 281 146
Receivables					
Trade receivables	17	1 385 528	1 459 592	1 238 880	1 221 492
Trade receivables from affiliated parties	18	-	-	1 351 723	1 012 380
Loans to affiliated parties	19	155 219	176 437	139 078	128 367
Other receivables		24 421	12 976	23 991	12 684
Accrued revenue		55 196	27 819	44 999	21 071
Deferred expenses		1 620 364	1 676 824	2 798 671	2 395 994
Cash	20	5 950 884	6 600 065	5 092 293	5 949 035
Total current assets		11 811 180	12 605 709	12 008 942	12 626 175
Total assets		16 254 821	16 708 501	16 077 357	16 451 250

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2022. EUR	Group 31.12.2021. EUR	Company 31.12.2022. EUR	Company 31.12.2021. EUR
Equity					
Share capital	21	377 391	377 058	377 391	377 058
Share premium		4 023 454	4 023 454	4 023 454	4 023 454
Retained earnings:					
a) retained earnings in prior years		8 304 031	6 520 961	8 169 492	6 579 059
b) profit for the year		1 120 826	3 668 691	1 229 549	3 476 054
Total equity		13 825 702	14 590 164	13 799 886	14 455 625
Liabilities					
Non-current liabilities					
Other liabilities		-	346	-	346
Deferred revenue	29	130 518	-	130 518	-
Total non-current liabilities		130 518	346	130 518	346
Current liabilities					
Advances from customers		93 592	74 618	31 712	25 460
Trade payables		1 082 166	942 769	1 024 715	908 193
Debts to affiliated parties		-	-	72 153	11 805
Taxes and mandatory state social insurance contributions	22	352 949	302 627	326 531	290 350
Other liabilities	23	247 744	256 322	211 550	230 129
Deferred revenue	29	3 922	15 428	3 648	15 428
Accrued liabilities	24	518 228	526 227	476 644	513 914
Total current liabilities		2 298 601	2 117 991	2 146 953	1 995 279
Total liabilities		2 429 119	2 118 337	2 277 471	1 995 625
Total equity and liabilities		16 254 821	16 708 501	16 077 357	16 451 250

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Note	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
Cash flow of operating activities					
Profit before corporate income tax		1 553 324	4 014 175	1 663 082	3 821 538
Adjustments for:					
Depreciation of property, plant and equipment	12	556 175	464 043	511 530	440 738
Amortisation of intangible assets	11	569 341	211 600	539 406	211 390
Net revenue from the disposal of property, plant and equipment	6	(20 020)	(2 420)	(20 020)	(2 420)
Government and the EU institutions aid	6	(138 384)	(349 705)	(138 384)	(143 603)
Other interest and similar income	8	(577)	(1 014)	(577)	(1 014)
Interest and similar expense	9	456	6 100	453	3 866
Profit before adjustments for current assets and current liabilities		2 520 315	4 342 779	2 555 490	4 330 495
Adjustments for:					
Increase in receivables		(73 312)	(60 948)	(411 220)	(653 224)
Increase in inventories		(36 812)	(364 972)	37 468	(238 985)
Increase in payables and other payables		463 931	432 983	315 799	265 147
Gross cash flow of operating activities		2 874 122	4 349 842	2 497 537	3 703 433
Interest paid		(456)	(6 100)	(453)	(3 866)
Corporate income tax paid		(419 044)	(374 707)	(418 965)	(374 707)
Net cash flow of operating activities		2 454 622	3 969 035	2 078 119	3 324 860
Cash flow of investment activities					
Other current financial investments		-	(14 097)	-	-
Payments for property, plant and equipment and intangible assets	11, 12	(1 507 224)	(1 798 911)	(1 338 282)	(1 579 230)
Proceeds from the property, plant and equipment sale	6	64 026	20 744	64 026	20 744
Received interest	8	577	1 014	577	1 014
Net cash flow of investing activities		(1 442 621)	(1 791 250)	(1 273 679)	(1 557 472)
Cash flow of financing activities					
Received government and the EU institutions aid	6, 29	251 097	344 624	251 097	171 272
Repaid financial lease liabilities		(26 991)	(54 555)	(26 991)	(54 555)
Dividends paid	24	(1 885 288)	(1 507 696)	(1 885 288)	(1 507 696)
Repayment of bank borrowings		-	(5 952)	-	(5 952)
Net cash flow of financing activities		(1 661 182)	(1 223 579)	(1 661 182)	(1 396 931)
Net (decrease)/ increase in cash and cash equivalents		(649 181)	954 206	(856 742)	370 457
Cash and cash equivalents at the beginning of the reporting year	20	6 600 065	5 645 859	5 949 035	5 578 578
Cash and cash equivalents at the end of the financial year	20	5 950 884	6 600 065	5 092 293	5 949 035

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Group	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2020.	376 924	4 023 454	8 028 791	12 429 169
Distribution of dividends	-	-	(1 507 696)	(1 507 696)
Increase in share capital	134	-	(134)	-
Profit for the reporting year	-	-	3 668 691	3 668 691
Balance as of 31.12.2021.	377 058	4 023 454	10 189 652	14 590 164
Distribution of dividends	-	-	(1 885 288)	(1 885 288)
Increase in share capital	333	-	(333)	-
Profit for the reporting year	-	-	1 120 826	1 120 826
Balance as of 31.12.2022.	377 391	4 023 454	9 424 857	13 825 702

Company	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2020.	376 924	4 023 454	8 086 889	12 487 267
Distribution of dividends	-	-	(1 507 696)	(1 507 696)
Increase in share capital	134	-	(134)	-
Profit for the reporting year	-	-	3 476 054	3 476 054
Balance as of 31.12.2021.	377 058	4 023 454	10 055 113	14 455 625
Distribution of dividends	-	-	(1 885 288)	(1 885 288)
Increase in share capital	333	-	(333)	-
Profit for the reporting year	-	-	1 229 549	1 229 549
Balance as of 31.12.2022.	377 391	4 023 454	9 399 041	13 799 886

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(1) STATEMENT OF ACCOUNTING POLICIES – GENERAL PRINCIPLES

Basis of preparation

The annual Report has been prepared in accordance with the Laws of the Republic of Latvia on *Accounting* and on *Annual Reports and Consolidated Annual Reports*. The income statement is prepared by function of expense method and cash flow statement is prepared using the indirect method.

These are consolidated and separate financial statements of the Company.

Principal accounting policies adopted

The Annual Report has been prepared in accordance with the following policies:

- a) Going concern assumption, the Parent Company and Group will continue as a going concern.
- b) Evaluation principles are consistent with the prior year.
- c) Items have been valued in accordance with the principle of prudence:
 - The Annual Report reflects only the profit generated till the date of the balance sheet;
 - All incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the balance sheet date;
 - All impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses have been matched with revenues for the reporting period.
- e) Asset and liability items have been valued separately.
- f) The opening balance sheet of the current reporting year corresponds to the closing balance sheet of the previous year.
- g) All accounts, which significantly affect the evaluation and decision-making of the annual report users, have been disclosed. Insignificant items have been combined and the details disclosed in the Notes.
- h) Business transactions are recorded in the annual report taking into account their economic content and substance, not merely the legal form.

Consolidation principles

Subsidiaries, in which the Group has direct or indirect control over operating activities, are consolidated. Control is obtained if the Group has an ability to influence the financial and management matters in a subsidiary, thereby benefiting from it. The control is obtained if the Group is entitled to influence the financial and operating policies applied in a subsidiary, as well as to benefit from its transactions. The consolidation of subsidiaries is based on a cost or acquisition method. The subsidiaries of the Group are consolidated from the moment when the Group has taken over control and the consolidation is discontinued with the disinvestment of the Group's subsidiary. The financial statements of subsidiaries are consolidated in the Group's financial statements, combining the respective assets, liabilities, profit and loss items. All transactions between the Group companies, settlements and unrealised profit or loss from transactions are eliminated. If necessary, the accounting policies of the Group's subsidiaries have been changed to the Group's accounting policies to ensure compliance with the accounting and measurement methods used by the Group.

Companies included in consolidation

All companies in which MADARA Cosmetics AS is the Group's Parent Company directly or through the subsidiary's intermediation are included in the 2022 consolidation.

Name of the Company	Group's ownership as of 31 December 2022	Group's ownership as of 31 December 2021
MADARA Retail SIA	100%	100%
Cosmetics NORD SIA	100%	100%
NORD Beauty SIA	100%	100%
MADARA Cosmetics GmbH	100%	100%

The reporting period

The reporting year covers the period from 1.1.2022 to 31.12.2022.

Foreign currency transactions

These financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Group's functional and presentational currency.

All transactions denominated in foreign currencies are translated into EUR at the exchange rate set by the European Central Bank on the transaction day. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate set by the European Central Bank on 31 December.

Profit or loss resulting from the exchange rate fluctuations is recognised in the corresponding period's income statement. As of 31 December of the reporting year, the Group has no significant assets and liabilities denominated in foreign currencies.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, senior management, members of the management and council, their close relatives and companies that directly or indirectly through one or more intermediaries control the Group or are controlled by the Group, or are jointly controlled by the Group.

Investments in subsidiaries and associated companies and other financial investments

Investments in subsidiaries (i.e. where the Company owns more than 50% of share capital or otherwise controls the investee Company) are measured initially at cost. The control is the power to govern the financial and operating policies of the investee Company.

Associated companies are entities over which the Company has significant influence but not control, generally between

20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the other Company but it is not control or joint control over those policies. Investments in associates are initially measured at cost.

Other financial investments are investments in the share capital of other companies in the amount not exceeding 20% of the Company's share capital.

Subsequent to initial recognition, all investments are stated at historical cost less any accumulated impairment losses. The carrying amounts of investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised in the income statement.

Intangible assets and property, plant and equipment

In the balance sheet, intangible assets and property, plant and equipment are recognised at their cost of acquisition less accumulated depreciation and amortisation. The Group capitalises items of property, plant and equipment with an initial cost exceeding 1 000 EUR.

Acquired fixed assets below 1 000 EUR are recognised in the low value inventory account.

The asset purchase value is the sum of the purchase price, import duties, non-deductible taxes and other directly attributable expenses needed to deliver the asset to its intended location and prepare it for its intended use.

Only the rights acquired for consideration are recognised as “Concessions, patents, licenses, trademarks and similar rights”.

Depreciation and amortisation is calculated over the useful life of the asset according to the straight-line method, applying the following depreciation rates:

<i>Intangible assets:</i>	<i>%</i>	
Licenses	20-33	%
Other intangible assets	10-20	%
<i>Property, plant and equipment:</i>	<i>%</i>	
Technological equipment	10-20	%
Hardware and electronic equipment	33	%
Vehicles	20	%
Other fixed assets	20-33	%

Profit or loss arising from the asset disposal is recognised in the income statement for the respective period.

Repair and renovation expenses increasing useful life or asset value are capitalised and depreciated over its useful life. All other repair and maintenance costs are recognised on income statement, in the period when they incurred.

Leasehold improvements are capitalised and are included in the asset's carrying amount. Leasehold improvements are depreciated using the straight line method over the shortest period - useful life or lease term.

Research costs are recognised in the income statement in the reporting period they incurred. The development costs are capitalised if the ability of the asset to generate economic benefits can be reliably demonstrated. Amortisation is calculated over the period of development cost use.

Impairment of non-current assets

If the non-current asset's recoverable amount at the balance sheet date is lower than its acquisition value less accumulated depreciation, the asset is measured at the lower of cost. The value of assets is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount.

Inventories

Inventory cost is determined using the weighted average cost method.

Inventories are stated at the lower cost, purchasing or net realisable value. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and sales expenses.

Inventories held in net realisable value are recognised at carrying amount of inventories reduced by allowances.

Receivables

Receivables are recognised according to the value of initial invoices less allowances for doubtful debts. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amount. Receivables are written off if their recovery is considered to be impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank account balances and short-term bank deposits with the initial maturity of 90 days or less.

Deferred expenses

Expenses incurred before the balance sheet date but related to the next reporting periods are recognised as deferred expenses.

Financial assets

- Non-current loans and claims

are financial assets created by the Company and Group by providing money or rendering services directly to the debtor and which are not intended to be sold immediately or in a short time period. Initially loans are recognised at fair value plus costs related to the loan issuance. Subsequent to initial recognition loans are stated at amortised value, using the effective interest rate method. Amortised value is calculated considering loan issuance costs incurred, as well as any loan-related discounts or premiums. Profit or loss arising from the amortisation is recognised in the income statement as an interest income or expense. If events or changes in circumstances indicate that the carrying amount is impaired, provisions of asset impairment are recognised.

- Other non-current financial investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company or the Group has decided and is able to hold to maturity. Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are carried at amortised value, using the effective interest rate method.

Held-for-sale financial assets are financial assets other than issued loans, invoices and held-to-maturity investments.

These assets can be sold in order to increase liquidity or in the event of changes in interest rates, exchange rates and capital value. If there is an objective indication that the carrying amount of an asset could be is impaired, an allowance for impairment is made.

- Current financial investments

are financial assets held for trading, which are acquired or incurred for the primary purpose of making profit from short-term fluctuations of price or profit margins. Financial assets held for trading are initially recognised at cost value plus transaction costs directly attributable to the acquisition of the financial asset. Cost value usually corresponds to the amount paid for the asset, including fees and commissions. Cost value is an amount at which a financial asset is measured at initial recognition less principal repayments, and is adjusted for any allowance for impairment.

Accrual for unused employee vacations

Accrual is computed by multiplying employees' average daily salary for the last 6 months by the number of unused vacation days at the end of the reporting year, additionally calculating employers' mandatory social insurance contributions.

Borrowings

Initially borrowings are recognised at fair value minus transaction costs incurred. Subsequent to initial recognition all borrowings are stated at amortised purchase value, using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

Finance lease liabilities

An asset leased under finance lease arrangement is initially recognised on the balance sheet in the acquisition value and as a liability at an amount equal to the asset. Depreciation is calculated over the useful life of the asset. Finance lease payments are split between financial expenses indicated as interest payment in the income statement and the outstanding liability reduction.

Leases

Lease that in essence transfers all the risks and rewards associated with the asset to the lessee is classified as finance lease. All other leases are classified as operating leases.

Payments made under operating leases are recognised in the income statement over the term of the lease, using the linear method.

Operating lease

Lease under which the risks and rewards of ownership are not transferred to the lessee is classified as operating lease. Operating lease payments are recognised in the income statement over the term of the lease.

Provisions

Provisions are recognised when the Company and the Group has a liability (legal or reasonable) due to a past event and it is probable that an outflow of resources embodying economic benefits from the Company or Group will be required to settle the obligation and the amount of the liability can be measured reliably.

Trade payables

Initially trade payables are recognised at fair value. In subsequent periods, the carrying amount of trade

receivables is measured at amortised initial value by applying the effective interest rate. Trade payables are classified as current liabilities if the payment is due within one year or less. Otherwise, they are classified as non-current liabilities.

Revenue recognition

Revenue from the sale of goods is recognised when the significant ownership rights and risks related to the goods have been transferred to the buyer and the revenue can be reliably assessed.

Revenue from rendering of services is recognised proportionally to the order completion stage.

Dividend income is recognised when the shareholder's right to receive the payment is established.

Interest income is recognised on a time proportion basis.

Corporate income tax

Corporate income tax is recognised in the income statement on the basis of calculations made by the management in accordance with the laws and regulations of the Republic of Latvia.

Corporate income tax is calculated on distributed profit, calculated at 20/80 of the net amount payable to the shareholders, and on certain expenses deemed as distributed profit, by applying a coefficient of 0.8. Corporate income tax on distributed profit is recognised when the Company's shareholders make a decision to distribute the profit.

At the time of distribution of dividends, the retained earnings subject to corporate income tax at the end of the reporting year are EUR 7 296 550.

Fair value

The fair value represents the value, at which an asset may be sold or liabilities settled within the normal market conditions. If based on the management assessment the fair value of financial assets and liabilities significantly differs from its carrying value, the fair value is disclosed separately in notes to the financial statements.

Use of estimates

To prepare the financial statements, the management of the Company and the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The management has assessed the

profit and loss and believes that based on all the available information the financial statements give a true and fair view of the financial position.

- Allowance for doubtful and bad trade receivables:

The Group's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The management has evaluated trade receivables and believes that no significant additional allowance is required as of 31 December 2022.

- Net realizable value of inventories:

The Group's management evaluates the net realisable value of inventories based on the expected sales prices and selling expenses, as well as assesses the physical condition of inventories during the annual inventory counting. If the net realisable value of inventories is lower than the cost of inventories, then an allowance is recorded. The Group's management has evaluated the net realisable value of inventories and believes that no significant additional allowance is required as of 31 December 2022.

- Useful life of property, plant and equipment:

Useful life of property, plant and equipment is assessed at each balance sheet date and adjusted, if necessary, to reflect the Company's management current view on the remaining useful life of the assets, taking into account changes in technology, the remaining economic life of the assets and their physical condition.

- Contingent liabilities:

Contingent liabilities are disclosed in notes to these financial statements. They are recognised as liabilities only if the possibility of an outflow of resources embodying economic benefits becomes probable.

Government and the EU institution aid

Government and EU institution aid is included in the balance sheet of the Company and the Group when it is certain that the terms will be met and the Company and Group will be eligible to receive it. If state aid is received for long-term investments, state aid is reflected in the balance sheet as a deferred income.

Government and the EU institution aid is not recognised until there is reasonable assurance that the Company and Group will comply with the terms and that the aid will be received. Aid is recognised as revenue over the period in which the Company and the Group incur costs that are offset by government aid. Thus, government aid, the aim of which is a purchase or creation of the non-current assets, is recognised as deferred revenue in the balance sheet and included in the income statement in a systemation and rational manner over the non-current asset's useful life.

Events after the reporting date

The financial statements reflect such events after the balance sheet date that provide additional information about the financial position of the Company and the Group at the balance sheet date (adjusting events). If the events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

(2) Net turnover

Turnover is the revenue generated during the year from the main operating activities – the sale of goods and rendering services less value added tax and discounts given. Revenue is generated from the production and sale of cosmetics, as well as from the provision of services and the sale of makeup stands.

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
Net turnover across geographical markets:				
Revenue from the sale of goods in the European Union	12 543 810	12 552 163	11 745 694	11 578 551
Revenue from the sale of goods in Latvia	4 468 029	4 833 273	4 734 152	5 455 305
Revenue from the sale of goods in other markets	1 514 256	1 790 294	1 281 360	1 687 061
Revenue from the sale of services	167 719	179 262	131 736	179 262
Other revenue from operating services	2 668	13 893	2 668	13 893
Total	18 696 482	19 368 885	17 895 610	18 914 072

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
(3) Cost of goods sold				
Raw materials consumed	3 114 524	3 340 726	3 193 296	3 337 436
Remuneration for work	1 521 583	1 386 037	1 466 486	1 385 140
Mandatory state social insurance contributions	358 447	325 890	345 450	325 678
Depreciation of fixed assets (see Note 12)	334 566	247 963	316 166	247 963
Production service costs	223 466	206 774	210 973	206 774
Current assets write-off	221 980	239 018	220 946	237 632
New product research and development costs	198 849	150 499	192 415	150 049
Premises rent and maintenance costs	210 286	149 123	149 123	149 123
Resource costs	165 985	84 000	165 985	84 000
Leasehold improvements write-off (see Note 12)	77 029	72 402	77 029	72 402
Development costs write-off (see Note 11)	32 157	32 157	32 157	32 157
ECOCERT quality certificate maintenance costs	30 755	24 735	29 577	24 735
Car maintenance, fuel and repair costs	21 924	20 169	21 924	20 169
Business trip costs	8 067	-	8 067	-
Other production and maintenance-related costs	67 764	30 692	67 750	30 692
Total	6 587 382	6 310 185	6 497 344	6 303 950
(4) Selling expenses				
Advertising and marketing costs	2 631 442	2 753 315	2 476 383	2 723 213
Remuneration for work	1 719 484	1 500 966	1 446 429	1 375 501
Transportation costs	1 178 755	1 115 072	1 098 833	1 077 869
Sample production costs	841 027	637 768	841 027	637 768
Asset depreciation and amortisation of intangible assets (see Note 11 and 12)	592 697	245 513	550 557	236 247
Mandatory state social insurance contributions	405 800	355 015	341 354	325 399
Intermediate services costs	321 363	324 838	407 163	437 938
Trade promotion costs	248 632	269 347	248 632	269 347
Maintenance costs of sales platforms	216 361	155 967	163 442	155 967
Premises rent and maintenances costs	144 378	112 659	-	-
Business trips and exhibitions costs	46 624	39 715	46 624	39 715
Royalties	29 019	54 381	29 019	53 381
Sales risk insurance	22 968	10 449	22 968	10 449
Warehouse service costs	18 621	32 234	18 621	32 234
Leasehold improvements write-off (see Note 12)	14 040	14 039	-	-
E-shop WEB page maintenance costs and other IT costs	13 413	20 351	13 413	20 351
Car maintenance, fuel and repair costs	12 356	22 547	12 356	22 547
Representation costs	11 432	7 099	11 425	7 079
Other selling expenses	75 013	45 774	106 764	39 021
Total	8 543 425	7 717 049	7 835 010	7 464 026

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
(5) Administration expenses				
Remuneration for work	743 634	557 485	581 187	417 793
Office costs	259 358	193 708	226 259	190 041
Mandatory state social insurance contributions	173 334	128 348	137 077	98 234
Cash transactions related costs	160 192	181 146	140 088	173 961
Premises rent and maintenance costs	142 003	75 227	142 003	75 227
Asset depreciation and amortisation of intangible assets (see Note 11 and 12)	75 027	63 571	75 027	63 361
Employee health insurance	64 363	49 314	54 277	43 142
Employee food costs	56 817	-	50 771	-
Personnel sustainability costs	56 770	64 011	55 052	64 011
Audit costs*	37 647	22 681	32 547	19 681
Car maintenance, fuel and repair costs	34 812	23 086	34 812	23 086
Securities circulation costs	28 692	24 412	28 692	24 412
Research consultation and conference costs	28 388	7 898	28 388	7 898
Legal and other professional service costs	28 310	31 182	22 664	31 182
Communication service costs	21 030	16 995	16 758	15 066
Allowance for doubtful receivables (see Note 17 and 18)	9 571	4 027	209 571	3 027
Business trip costs	8 441	353	8 441	353
Other management and administration costs	35 995	77 458	26 813	66 474
Total	1 964 384	1 520 902	1 870 427	1 316 949
(6) Other operating income				
State aid to overcome the COVID-19 crisis	-	206 172	-	-
Income from ERAF projects	138 384	143 603	138 384	143 603
Revenue from the sale of current assets	2 618	7 087	2 618	7 087
Income from purchased goods and services	-	-	-	128 540
Net revenue from the disposal of property, plant and equipment	20 020	2 420	20 020	2 420
<i>Proceeds from the disposal of property, plant and equipment</i>	<i>9 917</i>	<i>20 744</i>	<i>9 917</i>	<i>20 744</i>
<i>Indemnity from the disposed property, plant and equipment</i>	<i>54 109</i>	<i>-</i>	<i>54 109</i>	<i>-</i>
<i>Remaining balance sheet value of property, plant and equipment (see Note 12)</i>	<i>(44 006)</i>	<i>(18 324)</i>	<i>(44 006)</i>	<i>(18 324)</i>
Other income	39 348	22 456	40 126	19 948
Total	200 370	381 738	201 148	301 598
(7) Other operating expenses				
Donations	65 000	77 000	65 000	77 000
Staff recruitment and training costs	44 696	16 862	44 696	16 862
Nature protection costs	20 001	23 191	20 001	23 191
Resold purchased goods and services	12 409	6 621	12 409	132 626
Labour protection costs	11 046	11 119	11 046	11 119
Security costs	9 368	4 380	9 368	4 380
Other expenses	54 821	36 884	39 290	34 023
Total	217 341	176 057	201 810	299 201

*In the reporting period, Parent Company's auditor "Deloitte Audit Latvia" provided services only related to the statutory audit of the annual report.

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
(8) Interest and similar income				
Other interest income	577	1 014	577	1 014
Total	577	1 014	577	1 014
(9) Interest and similar expenses				
Currency exchange rate fluctuations	23 915	6 979	23 915	6 979
Factoring fees	854	4 718	237	2 484
Interest on obligations under finance leases	216	1 365	216	1 365
Interest on borrowings	-	17	-	17
Penalties paid	5 474	190	5 294	175
Total	30 459	13 269	29 662	11 020
(10) Corporate income tax for the reporting year				
Corporate income tax calculated on previously retained 2021-year distributed profit into dividends during 2022, less tax benefit	433 612	345 484	433 533	345 484
Total	433 612	345 484	433 533	345 484



(11) INTANGIBLE ASSETS

Group	Development costs (EUR)	Concessions, patents, licenses, trademarks, and similar rights (EUR)	Other intangible assets (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2021.	96 471	1 512 575	-	86 827	1 695 873
Additions	-	-	-	681 081	681 081
Adjustments	-	-	-	7 448	7 448
Transfers	-	727 761	31 226	(758 987)	-
Disposals	(96 471)	(647 348)	-	-	(743 819)
Cost as of 31.12.2022.	-	1 592 988	31 226	16 369	1 640 583
Accumulated amortisation as of 31.12.2021.	64 314	518 068	-	-	582 382
Amortisation charged	32 157	533 604	3 580	-	569 341
Disposals	(96 471)	(647 348)	-	-	(743 819)
Accumulated amortisation as of 31.12.2022.	-	404 324	3 580	-	407 904
Net carrying amounts as of 31.12.2021.	32 157	994 507	-	86 827	1 113 491
Net carrying amounts as of 31.12.2022.	-	1 188 664	27 646	16 369	1 232 679

Company	Development costs (EUR)	Concessions, patents, licenses, trademarks, and similar rights (EUR)	Other intangible assets (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2021.	96 471	1 511 525	-	8 599	1 616 595
Additions	-	-	-	530 609	530 609
Transfers	-	491 613	31 226	(522 839)	-
Disposals	(96 471)	(647 348)	-	-	(743 819)
Cost as of 31.12.2022.	-	1 355 790	31 226	16 369	1 403 385
Accumulated amortisation as of 31.12.2021.	64 314	517 806	-	-	582 120
Amortisation charged	32 157	503 669	3 580	-	539 406
Disposals	(96 471)	(647 348)	-	-	(743 819)
Accumulated amortisation as of 31.12.2022.	-	374 127	3 580	-	377 707
Net carrying amounts as of 31.12.2021.	32 157	993 719	-	8 599	1 034 475
Net carrying amounts as of 31.12.2022.	-	981 663	27 646	16 369	1 025 678



(12) PROPERTY, PLANT AND EQUIPMENT

Group	Land (EUR)	Leasehold improvements (EUR)	Techno-logical equip-ment and machinery (EUR)	Other fixed assets and equipment (EUR)	Assets under construc-tion (EUR)	Prepay-ments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2021.	468 722	784 829	3 656 815	959 908	213 637	19 064	6 102 975
Additions	-	-	-	-	270 582	555 561	826 143
Disposals	-	-	-	(95 867)	-	-	(95 867)
Adjustments	-	-	-	-	(4 913)	-	(4 913)
Transfers	-	98 319	240 575	208 167	(205 636)	(341 425)	-
Cost as of 31.12.2022.	468 722	883 148	3 897 390	1 072 208	273 670	233 200	6 828 338
Accumulated amortisation as of 31.12.2021.	-	477 838	2 177 320	541 466	-	-	3 196 624
Depreciation charged	-	92 622	269 571	193 982	-	-	556 175
Disposals	-	-	-	(51 861)	-	-	(51 861)
Accumulated amortisation as of 31.12.2022.	-	570 460	2 446 891	683 587	-	-	3 700 938
Net carrying amounts as of 31.12.2021.	468 722	306 991	1 479 495	418 442	213 637	19 064	2 906 351
Net carrying amounts as of 31.12.2022.	468 722	312 688	1 450 499	388 621	273 670	233 200	3 127 400

Company	Land (EUR)	Leasehold improvements (EUR)	Techno-logical equip-ment and machinery (EUR)	Other fixed assets and equipment (EUR)	Assets under construc-tion (EUR)	Prepay-ments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2021.	468 722	658 752	3 656 815	913 956	77 460	19 064	5 794 769
Additions	-	-	-	-	252 112	555 561	807 673
Disposals	-	-	-	(95 867)	-	-	(95 867)
Transfers	-	93 659	112 292	191 376	(55 902)	(341 425)	-
Cost as of 31.12.2022.	468 722	752 411	3 769 107	1 009 465	273 670	233 200	6 506 575
Accumulated amortisation as of 31.12.2021.	-	377 273	2 177 320	508 558	-	-	3 063 151
Depreciation charged	-	77 029	253 572	180 929	-	-	511 530
Disposals	-	-	-	(51 861)	-	-	(51 861)
Accumulated amortisation as of 31.12.2022.	-	454 302	2 430 892	637 626	-	-	3 522 820
Net carrying amounts as of 31.12.2021.	468 722	281 479	1 479 495	405 398	77 460	19 064	2 731 618
Net carrying amounts as of 31.12.2022.	468 722	298 109	1 338 215	371 839	273 670	233 200	2 983 755

(13) INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Acquisition value	18 156	18 156
Investments in subsidiaries:	18 156	18 156

Name of the company	Owned shares, %	Acquisition value / EUR	Value of the investment 31.12.2022 / EUR
MADARA Retail SIA	100	2 828	2 828
Cosmetics NORD SIA	100	2 828	2 828
MADARA Cosmetics GmbH	100	12 500	12 500
Total		18 156	18 156

MADARA Retail SIA, registration number 40103212103, 131 Zeltinu street, Marupe, Latvia.
Type of operations – retail sale of cosmetics products.

	31.12.2022 *audited (EUR)	31.12.2021 *unaudited (EUR)
Equity, unaudited	165 346	159 609
Profit of the reporting year, unaudited	5 737	133 413

Cosmetics NORD SIA, registration number 40103277805, 6 Kauguru street, Riga, Latvia.
Type of operations – wholesale of cosmetics products.

	31.12.2022 *audited (EUR)	31.12.2021 *unaudited (EUR)
Equity	(279 520)	2 650
Profit or (loss) for the reporting year	(282 170)	11 006

MADARA Cosmetics GmbH, registration number HRB 177689, Potsdamer Platz 1, Berlin.
Type of operations – cosmetics products distribution services.

	31.12.2022 (EUR)	31.12.2021 (EUR)
Equity, unaudited	20 028	26 899
Profit or (loss) for the reporting year, unaudited	(6 871)	9 139

(14) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Rent security deposits	82 736	82 124	40 000	40 000
Total	82 736	82 124	40 000	40 000

(15) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Raw materials and materials, gross value	2 585 801	2 381 505	2 584 911	2 377 885
Goods in transit	56 241	125 700	56 241	125 700
Total	2 642 042	2 507 205	2 641 152	2 503 585

(16) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Cosmetic products	1 135 313	1 440 857	1 013 632	1 395 803
Advertising materials	65 072	88 116	65 072	88 116
Goods in transit	28 872	10 286	28 489	10 286
Allowance for obsolete and slow-moving inventories	(7 500)	(7 500)	(6 500)	(6 500)
Total	1 221 757	1 531 759	1 100 693	1 487 705

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	7 500	7 500	6 500	6 500
Allowance for obsolete and slow-moving inventories at the end of the year	7 500	7 500	6 500	6 500

(17) TRADE RECEIVABLES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Trade receivables, gross value	1 416 561	1 481 054	1 268 913	1 241 954
Allowance for doubtful trade receivables	(31 033)	(21 462)	(30 033)	(20 462)
Total	1 385 528	1 459 592	1 238 880	1 221 492

	Group 2022 / EUR	Group 2021 / EUR	Company 2022 / EUR	Company 2021 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	21 462	98 299	20 462	76 017
Allowance charged (see Note 5)	9 571	4 027	9 571	3 027
Allowance written-off	-	(80 864)	-	(58 582)
Allowance for doubtful trade receivables at the end of the reporting year	31 033	21 462	30 033	20 462

Allowance for doubtful trade receivables is an amount of calculated allowances less recovered doubtful debt amounts.

(18) TRADE RECEIVABLES FROM AFFILIATED PARTIES

	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
MADARA Retail SIA	264 402	184 790
Cosmetics NORD SIA	1 287 321	827 590
Uzkrājumi šaubīgiem parādiem	(200 000)	-
Total	1 351 723	1 012 380

	Company 2022 / EUR	Company 2021 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	-	-
Allowance charged (see Note 5)	200 000	-
Allowance for doubtful trade receivables at the end of the reporting year	200 000	-

(19) OTHER RECEIVABLES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
VAT overpayment (Latvia)	104 197	89 933	104 197	89 933
VAT overpayment (Germany)	13 964	-	13 964	-
State aid to overcome the COVID-19 crisis	-	32 750	-	-
Corporate income tax overpayment	-	14 568	-	14 568
Security deposits	11 520	-	11 520	-
Other receivables	25 538	39 186	9 397	23 866
Total	155 219	176 437	139 078	128 367

(20) CASH

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Cash in bank accounts and electronic payment platforms	5 950 884	6 600 065	5 092 293	5 949 035
Total	5 950 884	6 600 065	5 092 293	5 949 035

(21) Share capital

2022 As of 31 December 2022, the registered and fully paid-in capital of the Group's Parent Company is EUR 377 391.10, which consists of 3 773 911 shares (31.12.2021: EUR 377 057.60, 3 770 576 shares). Share capital as of 31 December 2022 has increased by EUR 333.50, executing previously accumulated retained earnings within the programme of employee share options. The nominal value of one share is EUR 0.10.

Since 2017, the Group's Parent Company MADARA Cosmetics AS has implemented share options programme for its employees as an additional motivation and involvement tool. Share options may be acquired by employees of the Company, managers of departments and members of Council who have made a significant contribution to the Company. The granting of share options is exercised by the Board in accordance with procedures specified in the resolutions of the shareholders' meeting and the amount of options granted. The Company does not apply the fair value model to the programme of share options and, in accordance with the procedure, share options are exercised at par value at the expense of retained earnings. During 2022, 3 335 share options were issued. As a result, share option programme holders received 3 335 Company shares. As of 31 December 2022, the number of share options granted for which the rights of use will become available in the following reference years is 10 572 (31.12.2021: 7 237 share options). As a result of using these options, share options participants – employees will acquire 10 572 shares of the Parent Company.

(22) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Value added tax (OSS)	179 447	138 162	172 083	138 162
Mandatory state social insurance contributions	112 208	99 659	99 510	91 523
Personal income tax	55 827	52 928	49 632	48 801
Value added tax (Germany)	-	11 166	-	11 166
Other taxes and duties (Latvia, Italy, United Kingdom)	5 467	712	5 306	698
Total	352 949	302 627	326 531	290 350

(23) OTHER LIABILITIES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Salaries	215 472	202 027	188 393	185 593
Finance lease liabilities	-	26 645	-	26 645
Balance of gift cards	16 287	14 159	9 641	7 751
Other liabilities	15 985	13 491	13 516	10 140
Total	247 744	256 322	211 550	230 129

(24) ACCRUED LIABILITIES

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Accrued liabilities for unused vacations	315 802	278 126	281 889	278 126
Accrued liabilities for services received	123 768	99 794	116 097	87 481
Accrued liabilities for employee remuneration	22 417	22 607	22 417	22 607
Accrued liabilities for goods received	56 241	125 700	56 241	125 700
Total	518 228	526 227	476 644	513 914

(25) GROUP'S PARENT COMPANY'S RELATED PARTY TRANSACTIONS DURING THE REPORTING YEAR

	Goods and services provided	Goods and services received
MADARA Retail SIA *	412 279	-
Cosmetics NORD SIA *	836 318	11 793
MC PROPERTIES SIA	960	220 835
KALVI SIA	-	25 195
MADARA Cosmetics GmbH **	-	85 800
Total	1 249 557	343 623

* Outstanding balances with these parties are included in the balance sheet item "Trade receivables from affiliated parties".

** Outstanding balances with these parties are included in the balance sheet item "Debts to affiliated parties".

(26) NUMBER OF EMPLOYEES

	Group 2022	Group 2021	Company 2022	Company 2021
Average number of employees in the year, including:	202	184	172	158
Members of the Board	3	3	3	3
Members of the Council	5	5	5	5

(27) INFORMATION ON THE REMUNERATION OF MEMBERS OF THE COUNCIL AND THE BOARD

	Group 31.12.2022 / EUR	Group 31.12.2021 / EUR	Company 31.12.2022 / EUR	Company 31.12.2021 / EUR
Board members remuneration for the work at the Board	43 200	23 680	36 000	16 480
Council members remuneration for the work at the Council	4 245	6 676	4 245	6 676
Total	47 445	30 356	40 245	23 156

(28) Off-balance sheet liabilities and contingent liabilities

(a) Operating lease agreements

On 17 March 2015, the Group's Parent Company signed a premises rent agreement with MC Properties SIA Reg. No 40103872324 for leasing production and office premises in Marupe, 131 Zeltinu Street. The agreement matures in 2025. Group has concluded lease agreements for rent of premises in four shopping centers in Riga: "Galerija Centrs", "Spice", "AKROPOLE Alfa" and "AKROPOLE Rīga" and a long-term rent agreement for leasing storage and office premises in Riga, 6 Kauguru Street, which is at the same time a legal address for the subsidiary Company Cosmetics NORD SIA. Maturity of these agreements – up to the years 2024–2025 with a possibility to prolong.

(b) Issued guarantees

On 15 March 2015, a mortgage agreement was signed between A/S SWEDBANK and Group's Parent Company's lessor MC PROPERTIES SIA on pledged item – real estate on 131 Zeltinu Street, Marupe. Real estate is pledged in favor of SWEDBANK A/S and the Group's Parent Company is the guarantor for the MC PROPERTIES SIA obtained borrowings; the amount of the guarantee, in accordance with the terms of the contract, is the amount of the outstanding liabilities. In 2021, the Mortgage Agreement was amended and the amount of liabilities was recalculated. Initial debt amount of the agreement – EUR 1 041 024; as of 31 December 2022, the outstanding amount of MC PROPERTIES SIA loan to SWEDBANK A/S was EUR 890 877.

The Group's management has evaluated the need to create provisions for the above-mentioned guarantee and believes that such provisions as of 31 December 2022 are not necessary.

(c) Legal risk

The Company and the Group are subject to various foreign laws, including taxation laws, as the Group's activities related to the supply of goods to individuals and legal entities take place in various foreign markets. The period of supervision by the tax authorities of the relevant countries may vary from country to country, generally between 3 and 5 years from the time of incurring or declaring the tax liability. The Group and the Company are exposed to legal risks related to possible actions by the tax authorities of those countries, including tax liabilities that could arise for periods in which the limitation period has not yet expired as of 31 December 2022 and the date of signing the annual report. The Group's management has considered all known circumstances that have occurred before the date of signing the annual report and believes that the provision for possible tax liabilities from the supervision of these foreign tax administrations is not substantial and therefore no provision is made as of 31 December 2022.

(29) Received ERAF financing

To receive financing, in 2022 the Group's Parent Company participated in the Norwegian Financial Mechanism's Programme call – Green industry innovation and ICT products and technologies, in the Intelligent Motion Control under Industry 4.E project of the ECSEL Joint Undertaking as well as in Competence Centers projects, which provide support for the development of new products and technologies. During the implementation of these projects, all the necessary requirements for participation were met and the Group's Parent Company in 2022 received EUR 144 000. The total expected costs of the project is are EUR 1 036 000. The aid funding intensity is 45% of the eligible costs. The project is implemented from 3 January 2022 to 31 December 2023. The monitoring period of the project is 5 years from the date of approval of the final project report. In 2022 and as of 31 December 2022, the Group complies with all contractual obligations conditions related to deferred revenue.

In 2022, the support payments for the Intelligent Motion Control under Industry 4.E and other projects totalled EUR 107 000.

(30) Financial risk management

The Group's and the Company's activities are exposed to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk.

- Foreign currency risk

Foreign currency risk is the risk of financial losses incurred by the Group due to adverse fluctuations in foreign currency exchange rates. This risk arises when financial assets denominated in a foreign currency do not match financial liabilities in that currency, which results in open currency positions. The Group companies do not hold any material balances of financial assets and liabilities denominated in other currencies. Therefore, during the reporting year, the Group's exposure to foreign currency risk was not significant. The Group does not undertake measures to mitigate the risk.

- Credit risk

Credit risk is the risk that the Group will incur financial losses as a result of the default of counterparty on its obligations to the Group's companies. Credit risk mainly arises from bank balances, trade receivables and/or long-term and short-term loans. To mitigate this risk, the Group controls the debts of customers and suppliers on a regular basis, taking additional debt recollection measures in case necessary. The Group does not have significant concentrations of the credit risk with any single counterparty or group of counterparties having similar characteristics.

- Liquidity risk and cash flow risk

Liquidity risk is the risk that the Group will not be able to settle its obligations in full as they fall due. Liquidity risk arises when the maturities of financial assets and liabilities do not match. The aim of the Group's liquidity risk management is to maintain sufficient amount of cash and its equivalents, and to ensure the availability of funding through sufficient amount of committed bank credit line facilities to settle its obligations at a given date. As of 31 December 2022, the Group has no active credit line facility agreement. As of 31 December 2022, the Group's current assets exceed current liabilities. The Group's Parent Company assesses the repayment term matching of its financial assets and liabilities and the stability of long-term investment sources of funding on a regular basis.

(31) Events after the reporting date

With the execution of conversion of employee share options, a decision was made on 6 March 2023 to increase the share capital of the Company by EUR 100.00 (one hundred euro), by issuing new 1000 (one thousand) bearer shares with a nominal value of EUR 0.10 (ten euro cents) per share, which has been registered in the Commercial Register as of 20 March 2023.


In March 2023, a subsidiary was established in the USA, Delaware state – MADARA Cosmetics Inc., its type of operations – the distribution and sales of products.

During the period from the last day of the reporting year until the date of the signing of this financial statement, there have been no other events that should result in adjustments or be reflected in this financial statement.

(32) Proposal for profit distribution

Parent Company's Management Board proposes to pay in dividends EUR 1 321 219.85 or EUR 0.35 per share, where EUR 1 229 549 are from the Parent Company's 2022 profit and the remaining EUR 91 669.85 from previous years' retained earnings.

The Annual report approved by:



Lote Tisenkopfa - Iltnere
Chairman of the Board



Tatjana Nagle
Member of the Board



Uldis Iltners
Member of the Board

The Annual Report prepared by:



Armands Bērziņš
Chief accountant

24 May 2023



Translation from Latvian

Independent Auditor's Report

To the shareholders of MADARA Cosmetics AS

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of MADARA Cosmetics AS ("the Company") and accompanying consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 8 to 30 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2022,
- the separate and consolidated profit and loss statement for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group, respectively, as at 31 December 2022, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We have not determined any key audit matters to be communicated in our report of the financial statements of the current period.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Group, as set out on page 3 of the accompanying consolidated Annual Report,
- the Management Report, as set out on page 5 and 6 of the accompanying consolidated Annual Report.

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Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and Group's financial reporting process.

Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Inguna Stasa
Member of the Board
Certified auditor
Certificate no. 145

Deloitte Audits Latvia SIA
Licence no. 43
Rīga, Latvia
24 May 2023

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